

first \$6,000 in wages during the first year of employment and 25 percent during the second year. From its beginning in 1979 through the end of 1981, nearly 800,000 workers have been certified for the credit at an estimated cost in foregone tax revenues of \$1.2 billion.

The cost of adding older workers as a target group to the TJTC program would depend on how the target group was defined, on the increased demand for these workers, and on the number of interested eligible persons physically able to use the credit. If the group was defined as those low-income persons 62 and older who have not been employed in at least 26 weeks, then 1.5 million persons 62 to 69 and 2.6 million 70 and older would be eligible.<sup>16</sup> Annual costs could range from \$50 million--if 2 percent of the 1.5 million eligible persons 62 through 69 used the credit--to \$250 million if 10 percent used the credit.<sup>17</sup> Assuming that one-fifth of these jobs would neither displace other workers nor would have gone to those unemployed older persons in the absence of the credit, these costs could be partially offset by increased Social Security tax revenues ranging from \$7 million to \$35 million, and by increased income taxes and reduced Social Security benefits.

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15. (Continued)

operative education programs; vocational rehabilitation referrals; general assistance, Supplemental Security Income, and AFDC recipients; and former CETA Public Service Employment participants.

A person is considered economically disadvantaged if he or she is in a family with income less than 70 percent of the Bureau of Labor Statistics (BLS) lower-living standard. In 1980 this included, for example, persons in a four-person urban family with income less than \$9,800.

16. In 1980, approximately 4.5 million of the 31 million persons 62 and older were in families with incomes below 70 percent of the BLS lower-living standard, and 4.1 million of these persons did not work during that year.

17. One study of the TJTC indicated that, during a recent period, 2.3 percent of newly hired potentially eligible disadvantaged youths used the tax credit. See Congressional Budget Office, Improving Youth Employment Prospects: Issues and Options (February 1982) p. 32.

Because of the limit on the amount of wages subject to the tax credit and the earnings-test limitation in Social Security, the likely effect of adding this target group to the TJTC would be primarily to create part-time jobs for older persons. Both the employee and employer would incur large reductions in the value of further employment after a certain income had been earned--\$6,000 annually for employers, and the earnings-test limit for employees collecting Social Security benefits.

Although such a credit would be efficient in that the cost would be directly related to job placements, many jobs for the targeted workers probably would displace other workers.<sup>18</sup> Supporters of this option contend that a tax credit of limited duration could allow many older workers to prove their value to employers, implying that jobs created by this provision would extend beyond the period of the tax credit. Based on the history of tax credit programs for disadvantaged workers, some opponents contend that targeted employment tax credits simply are not effective in stimulating demand for targeted workers and largely subsidize employment that would have occurred without the credits.

#### Increase Employability

Another approach to facilitate employment by older persons would be to increase their employability. Specific options include:

- o Provide work-experience and job-search assistance to those older persons wishing to enter or reenter the labor force; and
- o Provide specific retraining of more skilled older workers who have been displaced from their former jobs or who wish to change careers.

Assist Inexperienced Workers.<sup>19</sup> Because of changing family situations and responsibilities, many persons who have not experienced long periods of employment reach later life with the

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18. See CBO, Improving Youth Employment Prospects, p. 33.

19. For a more complete discussion of issues and options involving inexperienced workers of all ages--and especially youth--see CBO, Improving Youth Employment Prospects.

freedom, time, and in some cases the financial need to enter or reenter the work force. As a result of their limited prior work experience, however, they may lack the specific work skills to qualify for many jobs, and may also lack information on effective job-search techniques.

Although their potential work opportunities in entry level jobs may be similar to those of disadvantaged workers such as minority youth, the only handicap of these older persons aside from their age is the lack of a formal employment history. They have generally spent years in nonmarket work, such as housewives and volunteers, and possess the stability and judgment of more experienced workers. What they lack, however, is an introduction to a more formal work environment.<sup>22</sup>

The federal government could assist these potential labor market entrants and reentrants by providing counseling on job-search strategies and by facilitating work experience. Federally financed job-search assistance is now provided by the Employment Service (ES)--a federally funded and state administered system of approximately 2,600 offices throughout the country.<sup>20</sup> Although the ES has had limited experience in instruction programs for job-search assistance, demonstration projects have met with some success.<sup>21</sup> One program provided disadvantaged youth with two days of intensive instruction in job-search techniques and three additional days of supervised job-search activity. The results of this program indicate that it did help participants to find employment faster than nonparticipants. The cost of the program was approximately \$200 per participant.<sup>23</sup>

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20. See CBO, Improving Youth Employment Prospects, pp. 70-73; and Employment and Training Report of the President, 1981, p. 46.

21. See CBO, Improving Youth Employment Prospects, p. 74.

22. For a discussion of the effectiveness of federal training programs, see CBO, CETA Training Programs: Do They Work for Adults? (July 1982).

23. A longer experimental program consisted of one week of job-search training and an additional three weeks of support services. This program was more expensive--about \$1,000 per participant--but produced similar results in terms of more rapid job placements.

Additional assistance to inexperienced older persons could be provided through federal support of work-experience programs. For example, the federal government could provide work experience for these persons by funding a six-month employment program offering half-time jobs at the minimum wage. The cost of this support in 1983 would be approximately \$3,500 per participant. Existing research indicates that work experience has been successful in increasing employment for women, although probably not for men.<sup>24</sup>

Assist Experienced Workers.<sup>25</sup> A second group of older persons who currently do not fare well in the labor market are skilled older workers who have either been displaced from former jobs--for example, by plant closings or by age-based policies of firms--or who, for various reasons, wish to embark on second careers. These workers are similar to inexperienced workers in that they could benefit from enhanced job-search capabilities but are different because they typically have many years of successful labor market experience and need only to acquire new skills to fit them for jobs in greater demand.<sup>26</sup>

These workers could be helped through job counseling and specific skill enhancement programs. Job counseling could be provided by the Employment Service and could consist of matching the abilities of these workers to existing employer demands. In addition, the ES could also provide training in effective job-search techniques.

As with dislocated workers of all ages, many of these older workers have strong labor market skills and are only in need of retraining for jobs in areas of current demand. Of the several skill enhancement techniques appropriate for dislocated workers, two would be most appropriate for older persons: vocational-

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24. See CBO, CETA Training Programs.

25. For a more complete discussion of the problems of dislocated skilled workers and options to assist them, see CBO, Dislocated Workers: Issues and Federal Options (July 1982).

26. In March 1980, there were about 20,000 unemployed workers 60 to 64 who had been laid off or had lost their jobs in declining industries. There were 30,000 unemployed who had formerly worked in declining occupations and 40,000 unemployed in regions that included declining industries. See CBO, Dislocated Workers.

technical training and limited educational training.<sup>27</sup> Vocational-technical training would be appropriate for skilled blue-collar workers who need to acquire additional specific skills to match available jobs. This training could, perhaps, be most efficiently provided by existing private organizations that are in close touch with local labor markets and whose continued existence requires that they provide those skills in greatest demand.<sup>28</sup> Federal support could consist of subsidizing the costs of tuition and expenses, which for similar training in other programs has cost about \$3,200 per participant.

Limited continuing education could be provided by study in community colleges. This educational enhancement could allow those more educated experienced workers to transfer their technical or managerial skills into expanding areas, such as computer technology. Tuition costs would be about \$400 annually for this training, plus the costs of any needed counseling to select the best fields of study.

The potential success of these programs in assisting older persons to retrain is uncertain, however, and could be limited. Not only do the effects on employment depend on the overall availability of jobs in the economy, but, because many older persons probably would not relocate to find employment, they also depend on local labor market conditions. Even with favorable employment possibilities, however, these programs are untested on older workers and actual gains in employment are uncertain.

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27. Ibid.

28. Ibid.

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## APPENDIXES

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**APPENDIX A. FEDERAL OUTLAYS FOR PERSONS 65 AND OLDER**

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TABLE A-1. ESTIMATED FEDERAL OUTLAYS FOR PERSONS 65 AND OLDER, BY PROGRAM, FISCAL YEAR 1982 (In billions of dollars)

| Program  | Outlays |
|--|---------|
| Social Security                                | 111.8   |
| Medicare                                       | 39.7    |
| Other Federal Retirement and Survivor Programs | 21.1    |
| Medicaid                                       | 6.5     |
| Veterans' Benefits                             | 4.3     |
| Housing Assistance                             | 3.3     |
| Supplemental Security Income                   | 2.9     |
| Other Federal Health Programs                  | 2.3     |
| Administration on Aging                        | 0.7     |
| Food Stamps                                    | 0.6     |
| Title XX Social Services                       | 0.4     |
| Energy Assistance                              | 0.2     |
| Other  | 2.4     |
| Total  | 196.2   |

SOURCE: Office of Management and Budget, 1981.



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## APPENDIX B. FACTORS AFFECTING BENEFITS UNDER THE SOCIAL SECURITY SYSTEM

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This appendix describes some of the major benefit provisions of the Old-Age and Survivors Insurance (OASI) system.<sup>1</sup>

### DETERMINANTS OF BENEFITS

Benefits are payable to workers, their dependents, or their survivors based on the earnings records of the workers.<sup>2</sup> Insured status is determined by quarters of coverage.<sup>3</sup> Some kinds of benefits are payable only if the worker has enough quarters of coverage to be "fully insured," and others are payable only if the worker is "currently insured." Other tests apply for disabled workers, which are funded from the Disability Insurance trust fund and are not discussed in this paper.

1. For descriptions of the Social Security system, see Robert J. Myers, "Summary of the Provisions of the Old-Age, Survivors, and Disability Insurance System, the Hospital Insurance System, and the Supplementary Medical Insurance System," Social Security Administration (August 1981); and Commerce Clearing House, Social Security Benefits Including Medicare (Chicago: 1981).
2. Workers and employers in covered employment contribute equally to Social Security: in 1982, each party pays 6.7 percent of the first \$32,400 in taxable wages and salaries. Self-employed persons pay a tax of 9.35 percent on the first \$32,400 of taxable earnings. In December 1976, approximately 80 million of the 88 million workers in paid civilian employment were covered by Social Security. This coverage rate of 91 percent in December 1976 compares to 90 percent in 1970 and 88 percent in 1960.
3. To be credited with a quarter of coverage prior to 1978, wages must have been at least \$50 during that quarter; for 1978, one quarter of coverage (up to four) was credited for each \$250 of annual earnings. Since 1978, the required earnings per year has increased according to the average amount of covered earnings; in 1982 the amount is \$340.

To qualify as fully insured, a worker must have at least one quarter of coverage for every year after 1950 (or the year he is 21, if later) and before benefits commence. The maximum number of quarters of coverage required is 40. A fully insured person is eligible for all benefits except disability.<sup>4</sup>

Currently insured status requires six quarters of coverage within the 13-quarter period immediately preceding entitlement for old-age or death benefits. Eligibility for this status provides only child, parent, and lump-sum survivor benefits.

#### COMPUTATION OF BENEFIT AMOUNTS

Once a worker's insured status has been verified, the amount of benefits can be determined. The link between the worker's earnings history and benefit level is the primary insurance amount (PIA). It is calculated in one of two ways, using either the average monthly wage (AMW) or the average indexed monthly earnings (AIME).

If a worker became eligible before 1979, his benefits are calculated using the AMW. This amount is equal to average monthly earnings during the worker's computation period, which includes the years between 1951 and age 62 (if the worker was born before 1930), or the number of years since reaching age 21 (if he was born after 1930), but not counting the five years of his lowest earnings.

If the worker became eligible after 1979, his benefits are calculated using the AIME.<sup>5</sup> As with the AMW, the AIME is based on covered earnings in the computation period. Before averaging, however, each year's earnings are first inflated, or indexed, generally to the year in which the worker reached 60.

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4. Disability benefits also require disability insured status. This generally requires 20 quarters of coverage in the 40-quarter period ending when the disability begins.
  5. Under certain circumstances a transitional method of calculation is also used, and benefits are the higher of those based on the transitional method and those calculated using the AIME.

As indicated above, calculation of the PIA is based on either the AMW or AIME. Using the AIME, the PIA in 1982 is equal to 90 percent of the first \$230 of AIME, plus 32 percent of the next \$1,158 of AIME, plus 15 percent of the AIME in excess of \$1,388. Using the AMW, the PIA is calculated in a similar, but more complicated, manner. Benefits are based on the PIA in the following manner:

- o Old-age benefits for retirement at 65 are equal to the worker's PIA;
- o Spouse and child benefits are generally each 50 percent of the PIA;
- o Widow's benefits are equal to the deceased worker's PIA, and benefits for the children of deceased workers are 75 percent of the PIA; and
- o A family maximum places an upper bound on total benefits based on the earnings of one worker.

#### ADJUSTMENTS TO BENEFITS

Monthly benefit amounts also depend on the age at which retirees accept benefits and on the amount of earnings received while collecting benefits.

Full benefits are available for retirement at 65, and reduced benefits as early as 62. Benefit amounts are permanently reduced by 0.56 percent of the PIA for each month of retirement which occurs before 65; thus, retirees at age 62 receive 80 percent of full benefits. In 1981, of those persons eligible for retired-worker benefits, 54 percent of men and 59 percent of women accepted them before age 65.<sup>6</sup>

Benefits are increased by delaying retirement beyond 65 and until 72. For each month's delay, benefits are permanently increased by 0.25 percent; thus, benefits for retirement at 68, for example, would be 109 percent of the amount received by retiring at 65.

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6. Social Security Bulletin: Annual Statistical Supplement, 1980, p. 104.

The earnings test, or retirement test, may reduce benefit amounts for those persons who collect benefits and work simultaneously. For each dollar in earnings above a certain limit, benefits are reduced by \$0.50. In 1982, the earnings test limit is \$6,000 for persons 65 through 71, and \$4,440 for those under 65. During the initial year of receipt of benefits, the test is applied on a monthly--rather than annual--basis, using prorated monthly limits of \$500 and \$370, respectively.

In 1977, the most recent year for which data are available, over 1.1 million retired-worker beneficiaries 62 through 71 received reduced benefits because of the earnings test;<sup>7</sup> this represented 9.5 percent of the eligible population. Benefit reductions amounted to \$2.9 billion in 1977 and represented 62 percent of their benefits before reduction. Of all retired-worker beneficiaries whose benefits were reduced, one-third lost all benefits. Beginning in 1983, the maximum age for application of the earnings test is scheduled to be reduced from 71 to 69.<sup>8</sup>

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7. Barbara A. Lingg, "Beneficiaries Affected by the Annual Earnings Test in 1977," Social Security Bulletin, vol. 43 (December 1980), p. 5.

8. This change was originally scheduled to become effective in 1982, but was postponed for one year by the Omnibus Reconciliation Act of 1981 (P.L. 97-35).

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## APPENDIX C. PRIVATE PENSION COVERAGE AND BENEFITS

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This appendix describes the workers covered by private pension plans, the benefits paid by the pensions, and the Employee Retirement Income Security Act (ERISA) rules on private pension participation and vesting.

### COVERAGE

From 1950 to 1975, the portion of the private-sector wage and salary work force covered by private pension plans increased from 25 to 49 percent. Since then, that fraction has remained relatively constant at slightly less than 50 percent. In 1979, about 35 million private-sector wage and salary workers participated in private pension plans. Participation was highest in manufacturing, mining, and transportation, with over 75 percent of the work force covered in those industries, and lowest in the trade, construction, and service industries with about 43 percent covered. Coverage tended to be greater in large than small firms, with over 80 percent of workers covered by private pensions in firms employing more than 500 workers, and 34 percent in firms with fewer than 100 workers.<sup>1</sup>

### BENEFITS

In most private pension plans, 65 is the normal retirement age, but many allow retirement as early as 55, or after a certain length of service. In 1979, an estimated 9.6 million persons received private pension benefits, about twice the number in 1970.<sup>2</sup>

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1. Sylvester J. Schieber, "Trends in Pension Coverage and Benefit Receipt" (Washington, D.C.: Employee Benefit Research Institute, 1981); and Department of Labor, Labor-Management Services Administration, "Patterns of Worker Coverage by Private Pension Plans" (1980).
  2. Sylvester J. Schieber and Patricia M. George, Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement (Washington, D.C.: Employee Benefit Research Institute, 1981) p. 62.



Average monthly pension benefits have grown in the past few decades, but have remained relatively stable at about 25 percent of average earnings.<sup>3</sup>

#### PARTICIPATION AND VESTING<sup>4</sup>

ERISA's major provisions relating to private pension plan participation and vesting of benefits include:

- o Participation. Generally, employees who reach age 25 and have one year of service must be eligible to participate in any plan. Employees with less than 1,000 hours of employment in one year, however, need not be credited with a year of service for purposes of eligibility rules.
- o Vesting. Participants whose pensions have been vested retain the right to all or part of accrued retirement benefits even if they leave the job before retirement. A plan must generally meet one of three alternative minimum vesting formulas:
  - Total vesting after ten years of service;
  - Vesting of 25 percent after five years of service, increasing by five percent each year for the next five years and by ten percent annually for the following five years, resulting in fully vested rights after 15 years; or
  - 50 percent vesting when the employee's age plus years of service totals 45 years, increasing thereafter by ten percentage points each year until fully vested.

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- 3. Robert L. Clark and David T. Barker, Reversing the Trend Toward Early Retirement (Washington, D.C.: American Enterprise Institute, 1981), p. 37.
  - 4. See Ray Schmitt, "Private Pension Plan Reform: A Summary of the Employee Retirement Income Security Act (ERISA) of 1974," Congressional Research Service Report Number 79-38 EPW (March 1979), p. 8.

- o Joint Survivor Annuity Requirements. All participants must have the option of continuing pensions to spouses if the retirees die before their spouses. The benefits provided to surviving spouses must be at least 50 percent of the employees' pensions. Employees' pensions may be reduced to meet the cost of this option.





